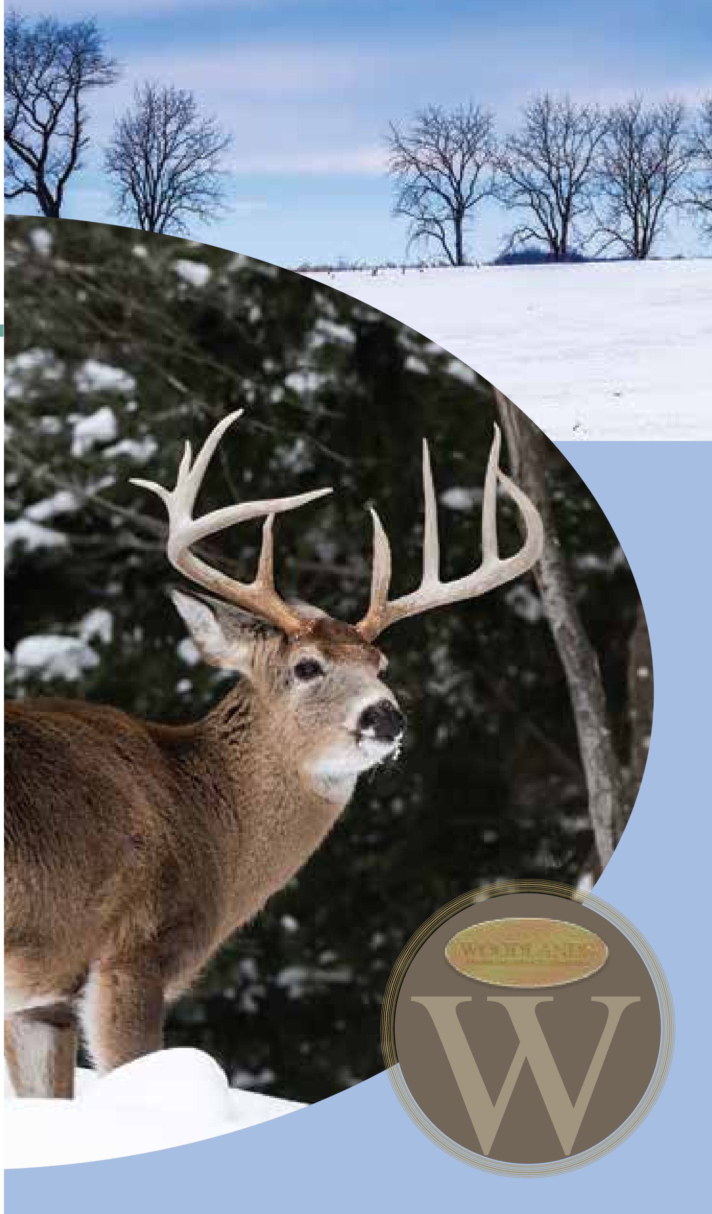
2016

December 31
Quarterly Report



Consolidated Balance Sheets (Unaudited)
as of December 31

(in thousands except per share amounts)

ASSETS	2016	2015
Cash and due from banks	$ 6,011	$ 6,067
Interest-bearing deposits with banks	4,831	117
Government money market funds	4,655	474
Federal funds sold	5,000	80
Cash and cash equivalents	20,497	6,738
Available-for-sale securities	70,855	77,179
Held-to-maturity securities	275	125
Loans and leases	280,388	272,844
Less: Allowance for loan and lease losses	3,219	2,905
Loans, net	277,169	269,939
Bank premises and equipment, net	10,236	9,481
Other real estate owned	448	239
Accrued interest receivable	1,116	1,092
Deferred tax assets, net	1,189	809
Restricted stock	1,128	1,345
Other assets	8,404	8,285
TOTAL ASSETS	$391,317	$375,232

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES	2016	2015
Non-interest bearing	$ 75,986	$ 73,186
Interest bearing	261,511	244,445
Total deposits	337,497	317,631
Fed funds purchased & other short term debt	1,000	–
Long-term debt	14,069	20,591
Accrued interest payable	115	126
Other liabilities	2,066	2,108
Total liabilities	354,747	340,456
STOCKHOLDERS' EQUITY		
Common stock, $5.00 par value, 10,000,000 shares authorized; 1,538,810 issued in 2016 and 1,537,010 shares issued and outstanding in 2015.	7,694	7,685
Preferred stock, $5.00 par value, 4,000,000 shares authorized; no shares issued or outstanding	–	–
Additional paid-in capital	8,138	8,113
Retained earnings	20,037	17,913
Accumulated other comprehensive income	701	1,066
Total	36,570	34,777
Less: Treasury stock, 0 shares as of December 2016 and 58 shares as of December 2015, at cost	–	1
Total stockholders' equity, net	36,570	34,776
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$391,317	$375,232

DIVIDEND DIRECT DEPOSIT

Shareholders may opt to have their dividends deposited directly into their checking or savings account at any financial institution participating in the Automated Clearing House (ACH) system.
To register, visit https://shareholder.broadridge.com/wdfn (select account maintenance under need a form?)

BANK OFFICERS
David L. Bartges, VP
C. Victor Beach, VP
Brian S. Brooking, Assistant VP
Thomas B. Burkholder, VP & Secretary
Jon P. Conklin, President & CEO
John J. Engel, Jr., VP
Joseph F. Farley, VP & CFO
David L. Fortin, Jr., Assistant VP
Andrew J. Gallagher, VP
Matthew A. Gaugler, VP
Shelly A. Hepler, VP
Carlene J. Keyte, Assistant VP
Stacy L. Neill, VP
Carol J. Welliver, VP

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Peter Went

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David J. Steinbacher
Theodore J. Weiss
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Catharine K. Ertel
John E. Hoffman
Harold L. Hurwitz

WOODLANDS FINANCIAL SERVICES COMPANY COMMON STOCK
is traded on the OTCQX market under the symbol of WDFN
The broker listed below is the designated corporate broker for
Woodlands Financial Services Company:

Boenning & Scattergood, Inc.
9922 Brewster Lane
Powell, OH 43065
(866) 326-8113

Registrar and Transfer Agent:
Broadridge Corporate Issuer Solutions
P.O. Box 1342
Brentwood, NY 11717
855-449-0975
or
720-378-5970
shareholder@broadridge.com

Woodlands Bank is a Pennsylvania State Chartered Bank and a member of the Federal Reserve System and the Federal Deposit Insurance Corporation. Deposits are insured up to $250,000.
Member FDIC – Equal Housing Lender

Visit our website at www.woodlandsbank.com

OFFICES LOCATED AT:

HALLS STATION
973 Lycoming Mall Drive
Pennsdale, PA 17756
570-546-5001

JERSEY SHORE
1146 Allegheny Street
Jersey Shore, PA 17740
570-398-2850

WILLIAMSPORT
213 West Fourth Street
Williamsport, PA 17701
570-321-1600

LOYALSOCK
2450 East Third Street
Williamsport, PA 17701
570-327-5263

NEWBERRY
1980 West Fourth Street
Williamsport, PA 17701
570-327-1550

SOUTH WILLIAMSPORT
618 West Southern Ave.
So. Williamsport, PA 17702
570-323-5263

HUGHESVILLE
2 South Main Street
Hughesville, PA 17737
570-584-2385

LOCK HAVEN
202 North Jay Street
Lock Haven, PA 17745
570-748-5166

WOODLANDS
FINANCIAL SERVICES COMPANY

Dear Shareholders,

I am pleased to present the financial results of Woodlands Financial Services Company (the Company) for the fourth quarter 2016. The quarterly results capped off another successful year for the Company with growth in loans, deposits, and net income being achieved. Total assets increased $1.3 million for the quarter and are up $16.1 million, or 4.3%, since the end of 2015. These increases were primarily driven by increases in deposits which were up $7.1 million for the quarter and $19.9 million, or 6.4%, for the year 2016. Net loans for the quarter were basically flat; however, they are up $7.2 million, 2.7%, for the year. Additionally, the Company's core capital increased 1.4% for the quarter and 6.4% for the year. Our concerted efforts to increase our customer relationships and to expand our overall customer base continue to find success as evidenced by the increase in deposits for the quarter and for the year. These efforts and the fruit they bear are crucial to the continued success and profitability of the Company. Also, the Company's balance sheet mix continues to be managed diligently to provide a benefit to the profitability of the Company given continued interest rate hikes by the Fed like the one seen in December. As always, the ultimate goal is to maximize long-term shareholder value, and the balance sheet management strategies employed are at all times developed with the achievement of that objective in mind.

Net income for the fourth quarter 2016 was $820 thousand, which is a 3.2% decrease over the previous quarter and a 4.9% decrease over the fourth quarter of 2016. Year-to-date net income, however, is up 2.3% for the year 2016 and represents, once again, a record annual net income for the Company. It is worth noting that net interest income is up both quarter-over-quarter and year-over-year and the periodic reductions in net income noted above can be attributed to personnel expense overlap due to an anticipated retirement, expenses related to technology investments, and increased income tax expense due to the expiration of certain tax credits. For the quarter, the Return on Average Assets (ROAA) was 0.81% and Return on Average Equity (ROAE) was 8.69% while year-to-date ROAA and ROAE stand at 0.87% and 9.27%, respectively.

As we close out yet another successful year, it is incredible to look back upon what was achieved over the course of the year through the collective efforts of those in the Woodlands family. It is also very exciting to look at the momentum that we have going into 2017 and the foundation upon which we have to build for the future. I could not be more confident going into the new year given the team in place that will lead us to our future successes as a Company. Also, I would like to acknowledge the year-end retirement of Carlene Keyte, who was instrumental in the success of the bank over the years, particularly in our residential mortgage efforts through her position as the Residential Mortgage Lending Manager. We thank her for her invaluable contributions to our successes and wish her nothing but the best in her retirement. Also, I'd like to thank all of you for your continued support of the Company and may you all have a joyous, healthy, and prosperous 2017.

Sincerely,

Jon P. Conklin
President and CEO

Consolidated Statements of Income (Unaudited)

(in thousands except per share amounts)

	For the three months ended December 31		For the year ended December 31	
	2016	2015	2016	2015
INTEREST INCOME				
Interest & fees on loans and leases	$3,091	$3,024	$12,222	$11,586
Interest & dividends on cash & cash equivalents	22	2	44	8
Interest & dividends on investment securities:				
Taxable	216	260	957	1,044
Tax-exempt	196	196	783	716
Dividends	31	28	117	120
Total interest income	3,556	3,510	14,123	13,474
INTEREST EXPENSE				
Interest on deposits	288	286	1,132	1,199
Interest on borrowed funds	143	146	574	469
Total interest expense	431	432	1,706	1,668
NET INTEREST INCOME	3,125	3,078	12,417	11,806
PROVISION FOR LOAN LOSSES	81	_	324	216
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,044	3,078	12,093	11,590
OTHER INCOME				
Service charges and other fees	216	210	835	798
Other operating income	310	280	1,212	1,071
Trust department income	332	247	1,165	998
Gain on sale of loans and other assets, net	65	20	201	114
Gain on investment securities, net	77	55	143	172
Total other income	1,000	812	3,556	3,153
OTHER EXPENSES				
Salaries & employee benefits	1,727	1,628	6,311	5,989
Occupancy expense	164	165	668	696
Furniture & equipment expense	123	122	471	464
FDIC insurance premiums	60	60	240	240
Data processing expense	181	158	670	632
Professional fees	40	70	232	269
Other operating expenses	620	546	2,430	2,114
Total other expenses	2,915	2,749	11,022	10,404
INCOME BEFORE INCOME TAXES	1,129	1,141	4,627	4,339
PROVISION FOR INCOME TAXES	309	279	1,273	1,061
NET INCOME	$ 820	$ 862	$ 3,354	$ 3,278
NET INCOME PER COMMON SHARE	$ 0.53	$ 0.56	$ 2.18	$ 2.14
RETURN ON AVERAGE ASSETS	0.81%	0.89%	0.87%	0.90%
RETURN ON AVERAGE EQUITY	8.69%	9.69%	9.27%	9.72%

WOODLANDS
FINANCIAL SERVICES
COMPANY